The Role of Natural Gas Fired Reciprocating Engines in the Distributed Energy Market – Market Forces and Opportunities

Presented by:

Ted Bronson, Associate Director

Distributed Energy

GTI

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Overview

- Introduction – Why Recips?
- Reciprocating Engine DE Markets
- Reciprocating Engines in Power Generation - Costs
- Regulatory Issues and Initiatives
- Power Generation Emissions
- Conclusions and Recommended Actions

Introduction

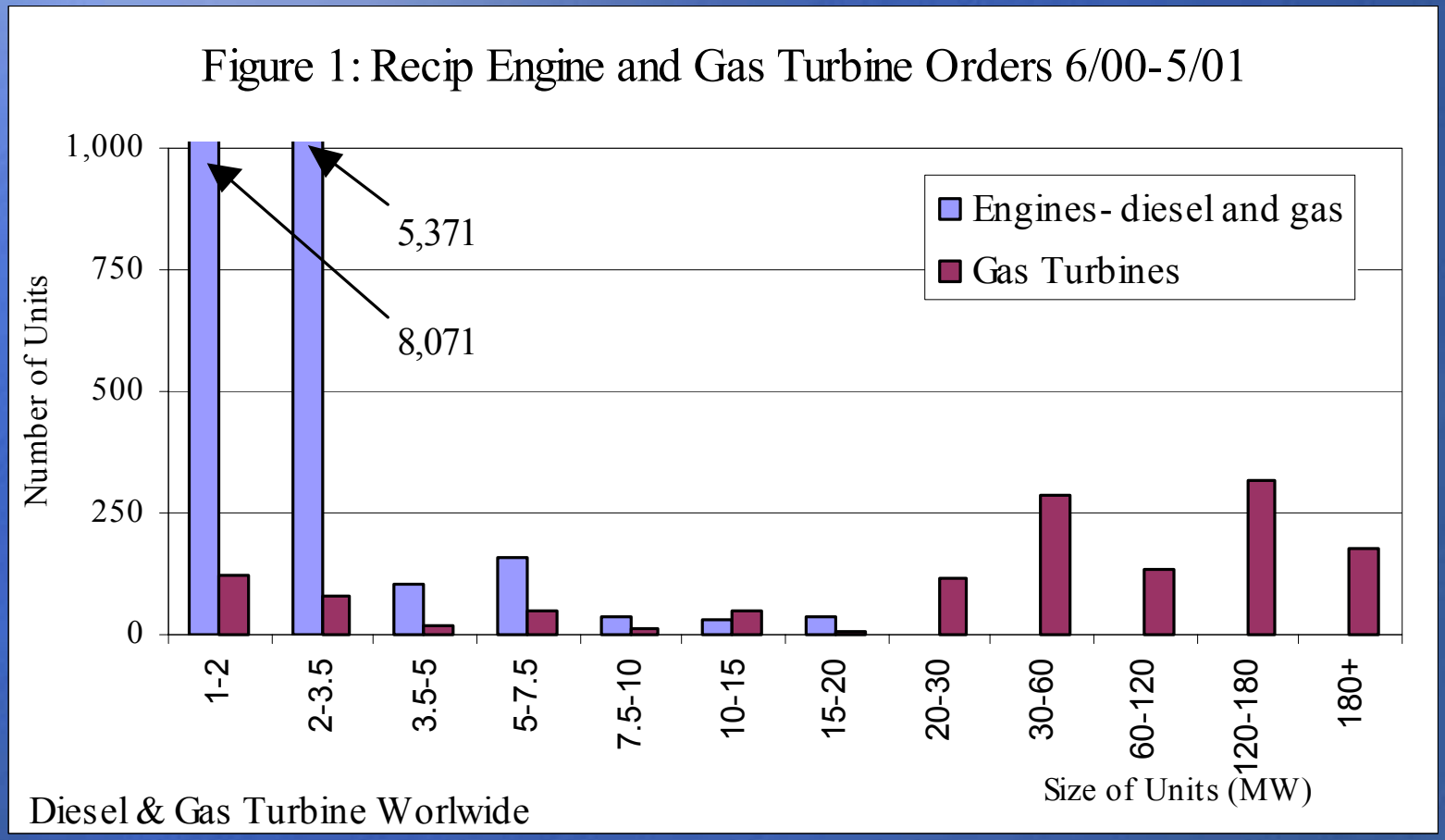
- GTI – Leading efforts to develop emerging DE technologies
  - Microturbines
  - Fuel Cells – PEM, Solid Oxide, Molten Carbonate
  - Gas-Renewable Hybrid Systems
  - Packaged DE Systems

Introduction

- Why Recips?
  - Untapped potential of Building IES market
  - Proven and Improving
  - One of few industries large enough to force change to a competitive market
- Today's presentation
  - Focus on Characteristics of Market and its Forces
  - Discuss approaches with Regulators to open DE market

Reciprocating Engine DE Markets

- **Reciprocating Engines Dominate Distributed Energy Market below 7.5 MWs**

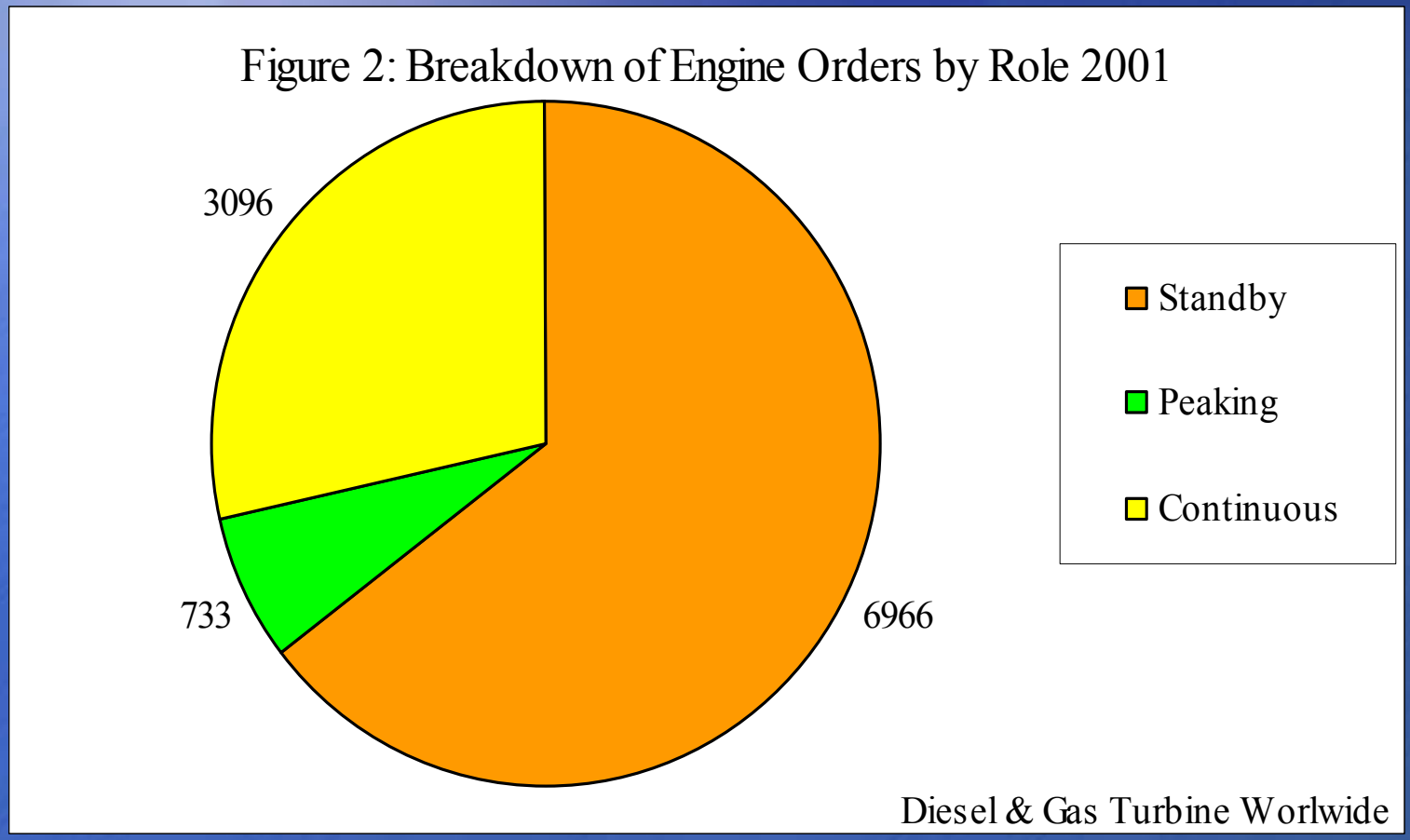


Reciprocating Engine DE Markets

- Why do recips dominate at smaller sizes?
  - Lower installed costs
  - Several established competitors with numerous products
  - Excellent load-following characteristics
  - Versatility in operation
  - Fuel versatility
  - Fast start-up to full load operation
  - Relatively low exhaust gas emissions levels
  - Excellent operational performance at variable loads and high ambient temperatures
  - Proven Reliability at these sizes
  - Significant heat recovery potential
  - Operator familiarity and ease of maintenance
  - Well established sales and service infrastructure

Reciprocating Engine DE Markets

Reciprocating Engine Operating Strategies



*Due to trend to reduce grid peak load demand, expect on-peak DER to be a more economic option in the future.

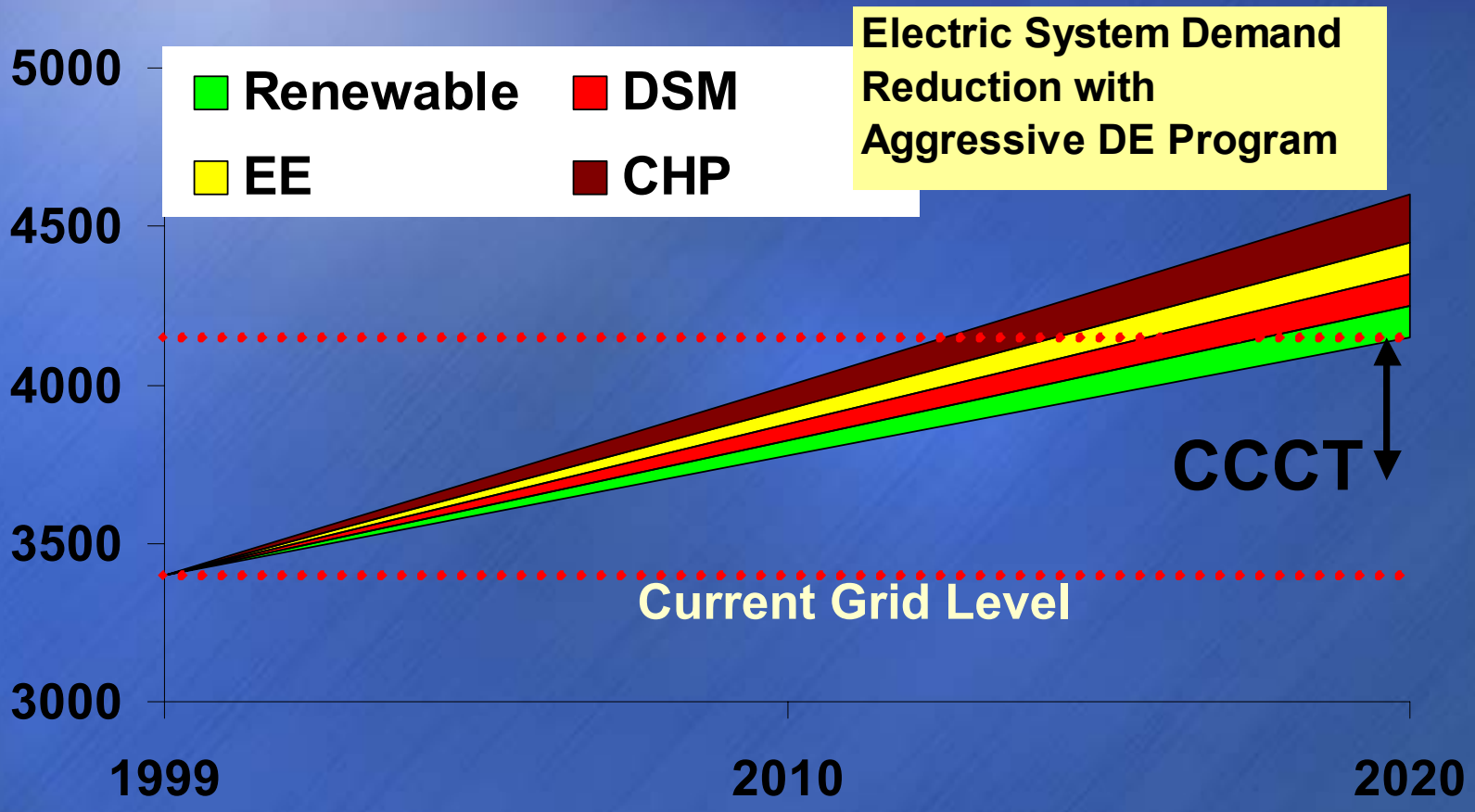
Reciprocating Engine DE Markets

- DE Market beginning to grow
  - Stationary reciprocating engine orders up 68% from May ’00 to June ’01
  - Natural gas fired reciprocating engine orders up 95%
- Consumers excercising choice to better control the reliability and availability of their power
- High costs of power outages and peak power key
  - PUCs beginning to increase peak power rates (IL, TX) to lower peak on grid
  - Expect emerging rates to make on-peak DE more economically attractive in the future

Reciprocating Engine DE Markets

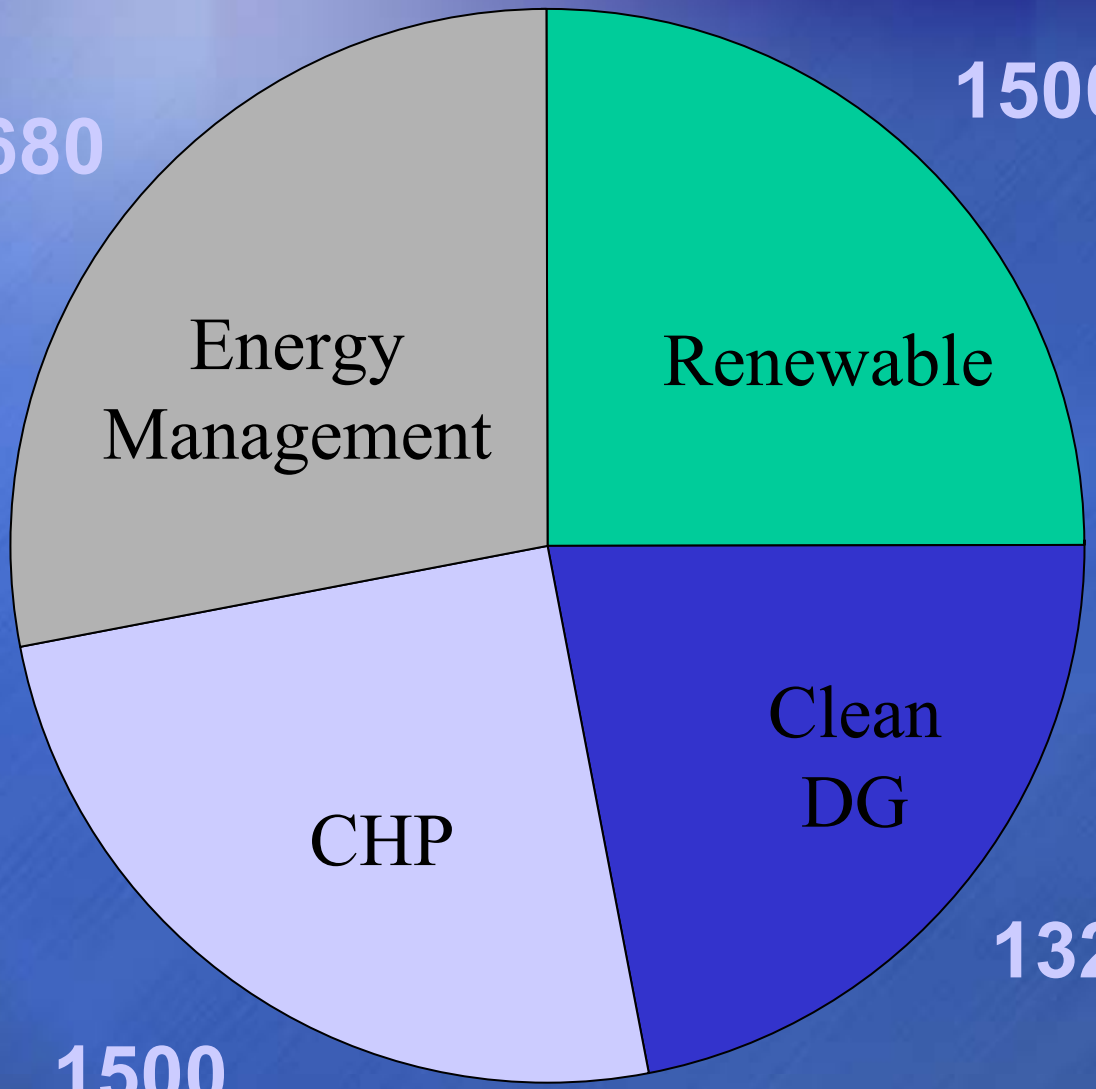
- Emerging Power Generation Applications
  - Industrial CHP
    - Efficiency and environmental benefits
  - Integrated Energy Systems (BCHP)
    - "Plug and Play" applications
    - DOE's Packaged System Program
  - Energy Security
    - "A more independent and decentralized energy system, less reliant on central power plants (e.g. potential targets) and excessive T&D networks is safer and less vulnerable to disruption" – Union of Concerned Scientists
  - Metropolitan Energy Planning
  - Improved / High 9s Reliability

Supply 30% of Projected Growth



AEO 2001

Chicago Goal 6000 Million kWh



=Projected Growth over next 10 Years

Reciprocating Engine DE Markets: High 9s Reliability

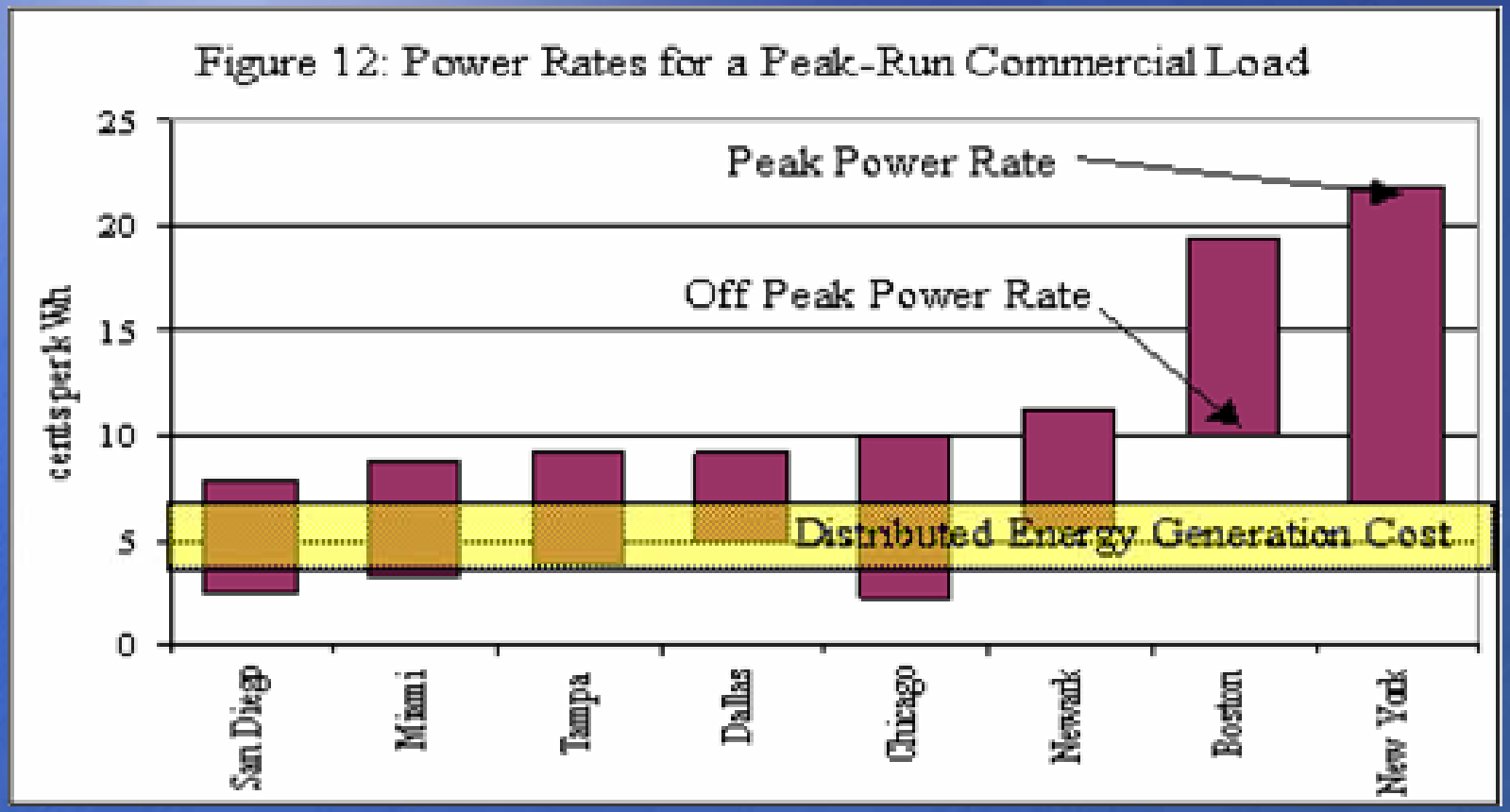
Industry Costs of Grid Failures

Industry	Average Cost of Downtime
Cellular Communications	$41,000 per hour
Telephone Ticket Salesa	$72,000 per hour
Airline Reservations	$90,000 per hour
Credit Card Operations	$2,580,000 per hour
Brokerage Operations	$6,480,000 per hour

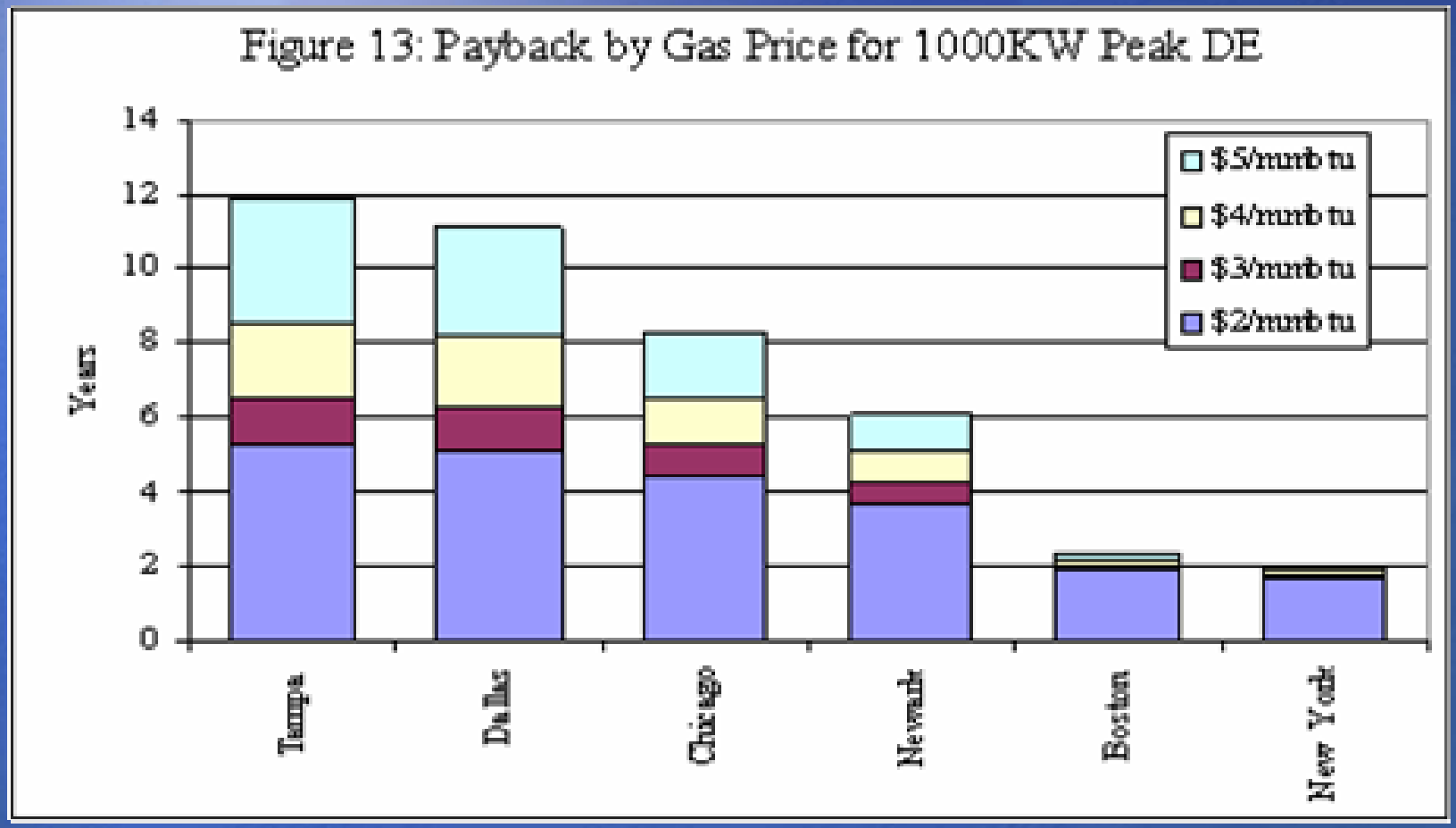
Reciprocating Engines Impact on Power Generation – Costs

- Project Total Installed Cost Economics
  - Higher for smaller units (500-1500 kws, vs >5 MWs)
  - Challenge for IES / Building Program
  - Drive to packaged systems and lower unit costs
- Factors impacting Payback
  - Operating Cost
  - Local Utility Rate structures
  - Heat Recovery
- Cost is major factor of Reciprocating Engine dominance of < 7.5 MW market (Still not competive in some applications)

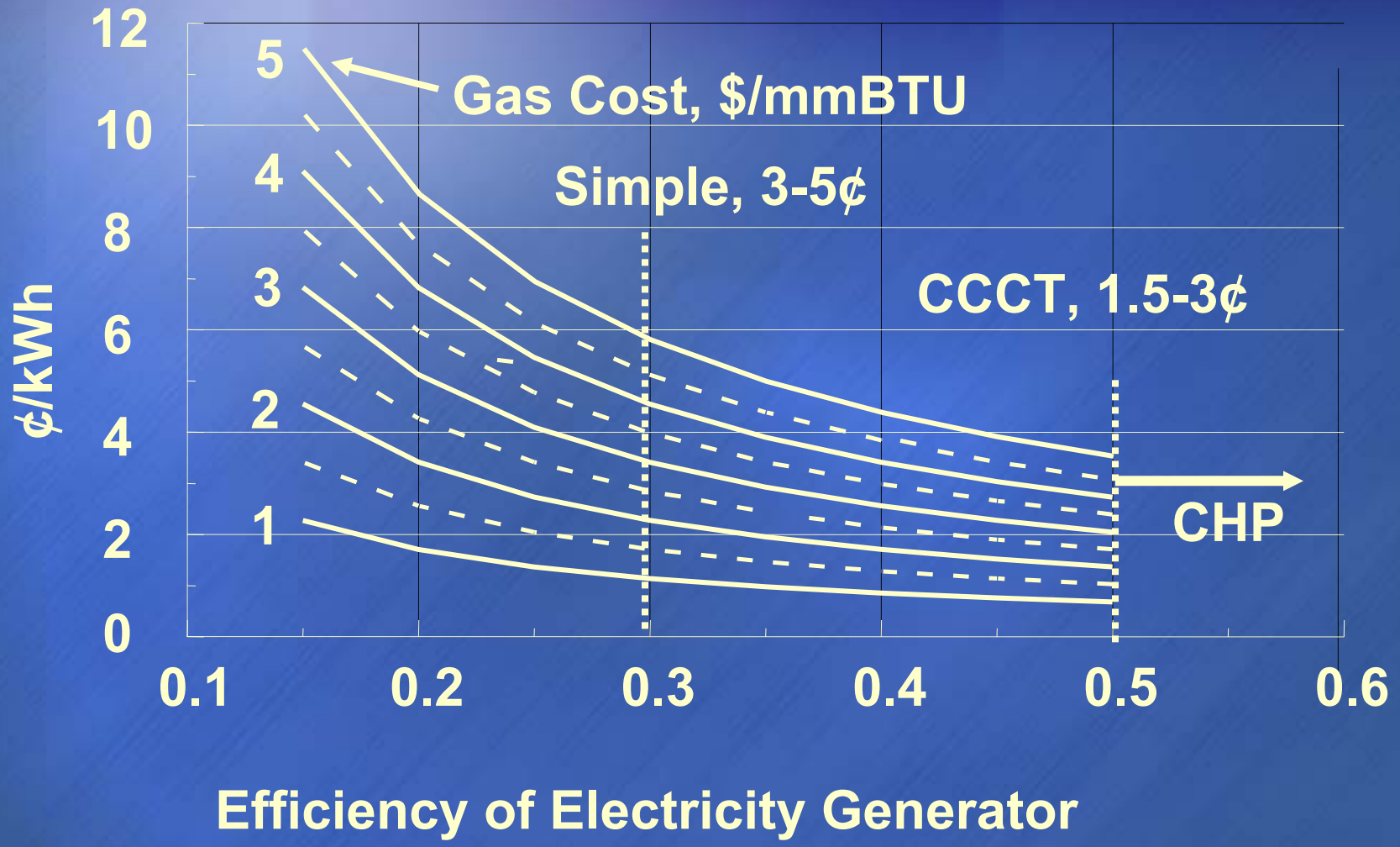
Reciprocating Engines Impact on Power Generation – Costs



Reciprocating Engines Impact on Power Generation – Costs



Cost of Gas Driven Electricity Generation



GTI Calculation

Regulatory Issues and Initiatives

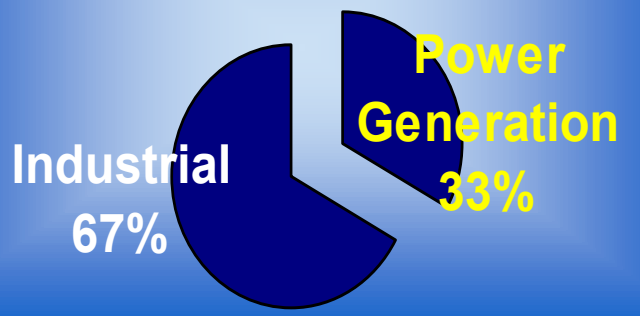
- Myths concerning DE and Reciprocating Engines:
  - DE results in increased power costs for captive grid customers
    - Message: DE only represents portion of planned growth, and will serve to increase grid utilization and moderate electicity prices
  - Too much DE may cause instability to the grid
    - Message: Recent GE study identified virtually no impact to 20%; Holland and Denmark utilizing over 40 and 50% DE.
  - DE and Recips are “dirty” technologies
    - Message: It depends on use, location and application (more later)

Regulatory Issues and Initiatives

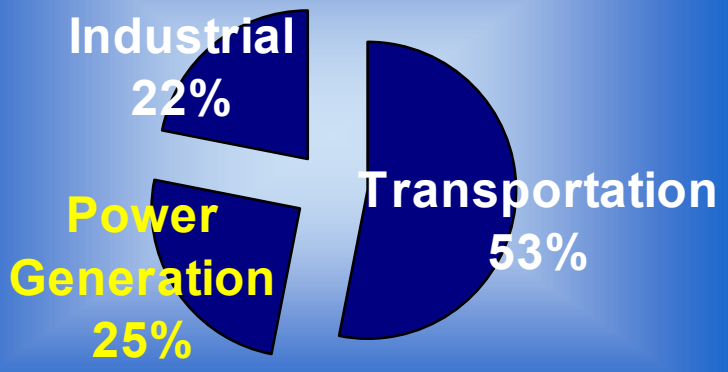
- Existing institutional and market barriers (see DOE report Making Connections)
  - Standby Rates
  - Renegotiated Rates
  - Impact of Deregulation
  - Tariff Issues
  - Other utility issues
  - DE Emissions Standards (CA, TX, RAP)

Power Generation Emissions

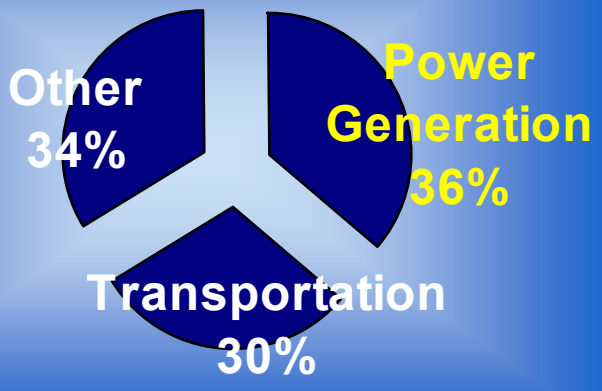
National Anthropogenic Mercury Emissions by Principal Combustion Source



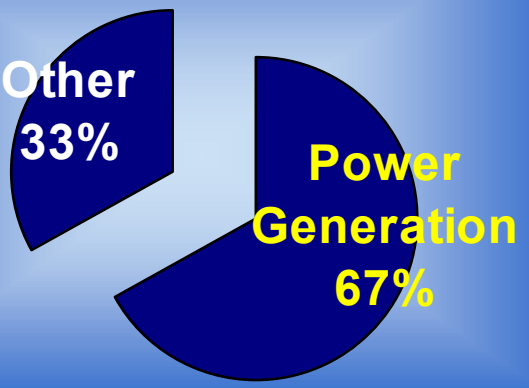
National NO_x Emissions



U.S. CO_2 Emissions by Sector



National SO_x Emissions



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EPA

Power Generation Emissions

Emissions by Generation Type (lbs/MWh)[i]

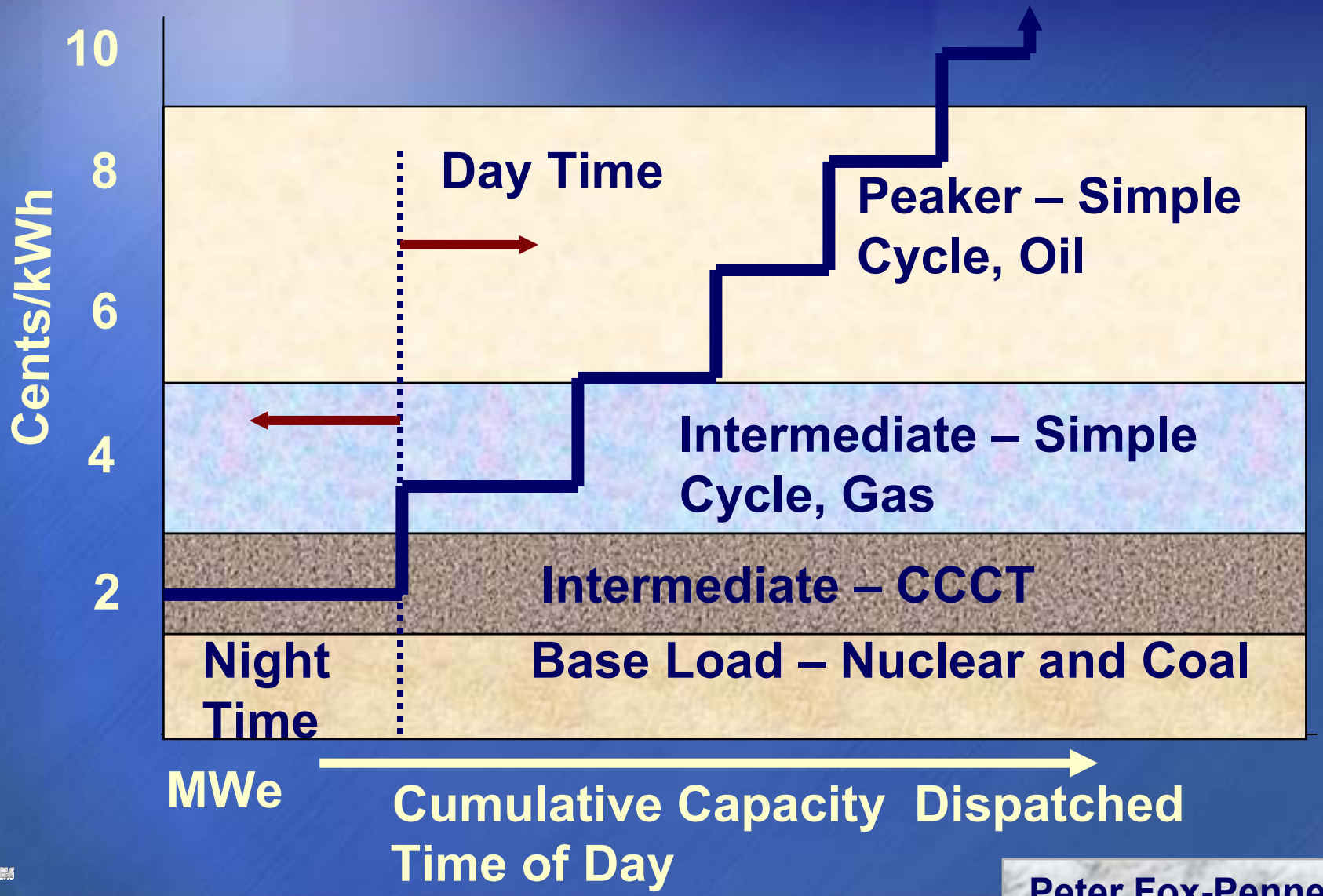
Generator Type	NO_x	CO_2	SO_x
Natural Gas CCGT	0.09-3.8	770	~0
Oil (2.2 % sulfur) fueled steam electric plant	3.0-3.7	1,770	25.4
Oil (0.3 % sulfur) fueled combustion turbine	3.7-6.8	2,190	4.4
Coal- Steam Electric	6.1-9.4	1,960-2,310	46.6
Diesel Engine	**17.0**	**1,700**	**5.0**
Natural Gas Engine	**3.2**	**970**	**0.01**

[i] Engine Source: 2002 projections by Distributed Utility Associates for the California Air Resources Board. Other Generating Technology Source: Power Scorecard Methodology by Pace Law School Energy Project. September 22, 2000.

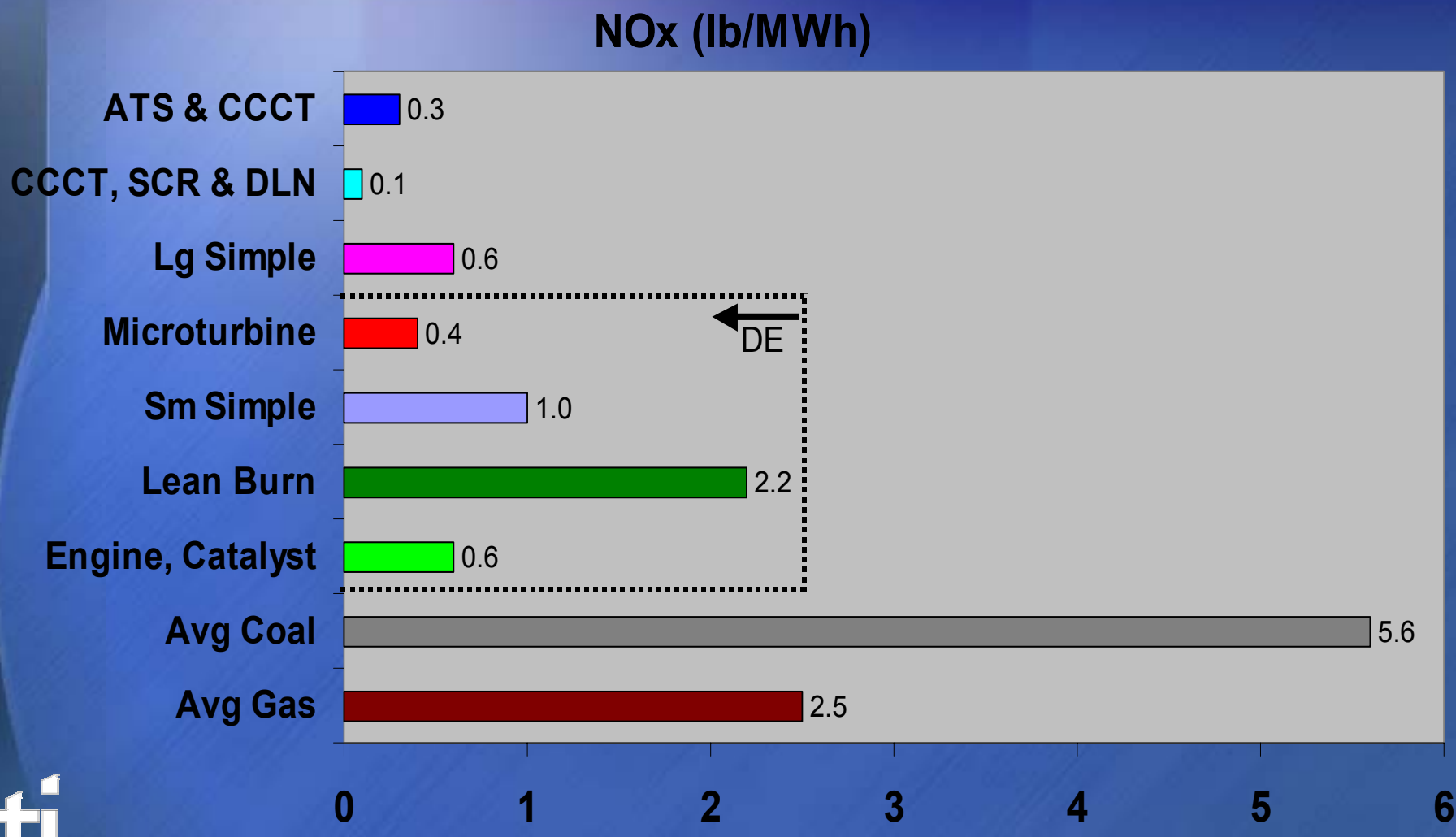
Power Generation Emissions

- What does DE offset?
  - Location: Type and location of plants by region
  - Time of Use: On Peak vs. Off Peak Emissions

Generation – Marginal Price

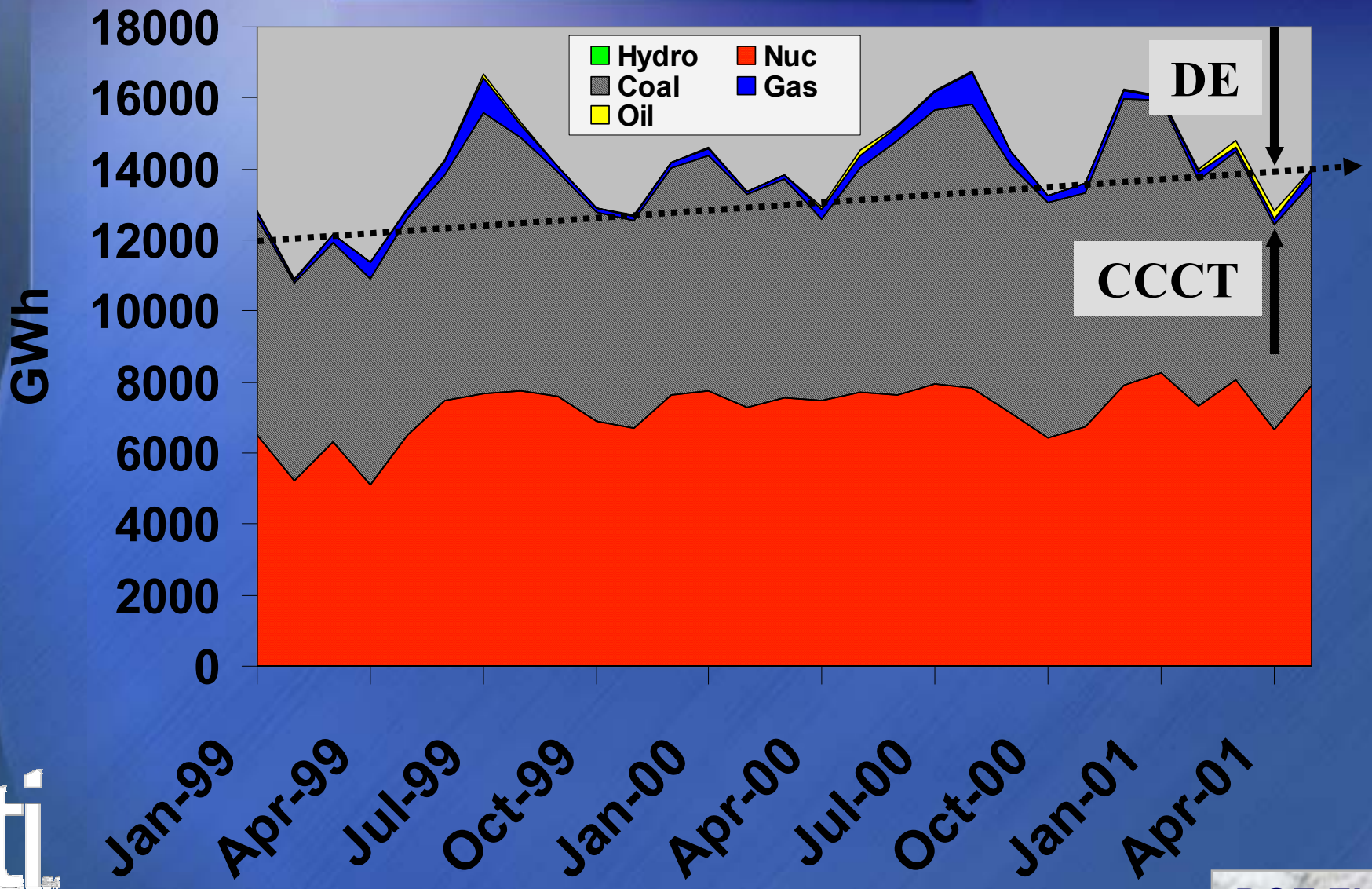


DE Improves Power Gen Emissions



* Modified by GTI

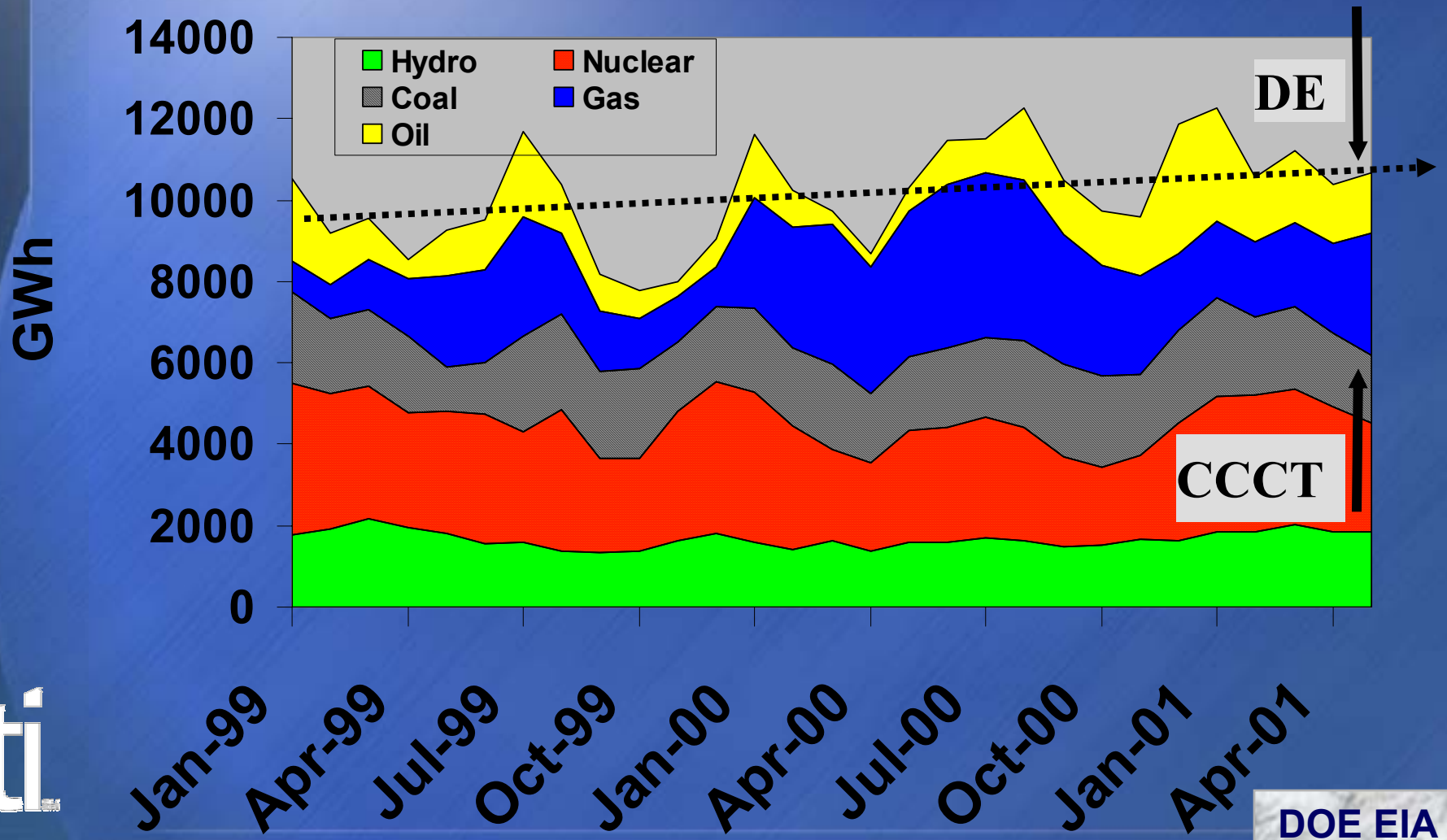
Illinois Generation



DOE EIA

New York Generation

- 7,000 – 1MW DE Plant to displace Gas & Oil > 2.5 lbs/MWh



DOE EIA

DE Emissions Impact Summary

- DE can have a positive impact on emissions in most States (not Texas and CA)
- CCCT Represent a small portion of the electricity generation sector
- CCCT will be selected before simple cycle gas and oil
  - DE will reduce the need for increases in simple cycle gas boilers/turbines and coal fired electricity
- CCCT does not appear to be a player in markets dominated by coal and nuclear (such as the Midwest)

Conclusions and Recommended Actions

- Reciprocating Engines can serve as a bridge, or enabling technology to new DE technologies
  - Capital and infrastructure necessary to reduce barriers and drive down installed costs
- Unnecessary, overly stringent standards may eliminate reciprocating engines as a choice in some markets, resulting in several limits to the overall DE market
- Reciprocating Engine Manufacturers and DOE can work together to:
  - Further improve engines (lower costs, improved emissions)
  - Develop integrated products for specifed, emerging markets that reduce overall costs.
- Reciprocating Engine Manufactures should work to drive national and regional industry groups working to remove barriers and open up the DE market

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